

January 13, 2003

MEMORANDUM

TO: Human Resources Officers
All State Agencies

FROM: Richard T. Lowe, Director
Financial Operations Division
Office of Financial Management

SUBJECT: **Calendar Year 2003 Payroll Tax Information**

Federal Income Tax

The biweekly value of a federal withholding allowance has been increased from \$115.38 to \$117.31 for 2003. The federal withholding tables have also been revised. For most employees, the increase in the withholding allowance and the changes to the withholding tables should result in a decrease in federal income tax withholding on wages paid after December 31, 2002.

Due to repeated taxation errors when using a combination of flat tax and regular taxation methods, several pay codes have been changed from using the federal supplemental flat rate (27%) method to the regular tax method, using the IRS wage bracket tables. Attached is a listing of the pay codes changed. All pay will now be taxed based on the IRS wage bracket tables.

As a reminder, please note that federal W-4 forms claiming exemption from withholding expire annually on February 15. If an employee previously claiming exemption from federal withholding does not give you a new W-4 form by February 15, 2003, you **must** change the employee's marital status to single and federal withholding allowances to zero.

Federal Advance Earned Income Credit (EIC)

The federal advance earned income credit tables have been revised for 2003. As a result, some employees receiving the advance earned income credit may see an increase in the amount of the credit for wages paid after December 31, 2002.

As a reminder, please note that federal W-5 forms used to claim the advance earned income credit expire annually on December 31. If an employee previously claiming the credit does not give you a new W-5 form by December 31, 2002, they will not be eligible for the credit **until** a new W-5 form is filed.

Social Security Tax

For 2003, the Social Security Tax rate remains at 6.20%. However, the wage base has been increased from \$84,900 to \$87,000, resulting in a maximum tax of \$5,394.00.

Medicare Tax

For 2003, the Medicare tax rate remains at 1.45% with no wage ceiling. This means that all of an employee's 2003 taxable wages are subject to medicare tax.

State Income Taxes

Michigan:

The biweekly value of a State of Michigan withholding allowance has been increased from \$115.38 to \$119.23 for 2003. The income tax rate has decreased from 4.1% to 4.0%. The increased withholding allowance and the changes to the withholding tables should result in a slight decrease in Michigan income tax withholding on wages paid after December 31, 2002.

California:

The wage bracket tables decreased and the biweekly standard deduction amount increases from \$114 to \$116 for 2003. The increase in the standard deduction and the changes to the withholding tables should result in a slight decrease in California income tax withholding on wages paid after December 31, 2002.

Other States:

There are no changes for New York, Illinois, Indiana, Ohio, or New Jersey income tax withholding.

City Income Taxes**Detroit:**

The City of Detroit tax rates have changed effective January 1, 2003. The resident tax rate decreases from 2.65% to 2.55%. The non-resident tax rate decreases from 1.325% to 1.275%.

Other Cities:

No other changes were reported for cities for which the state withholds taxes.

Deferred Compensation Maximum Deferral

For 2003, the maximum deferral for employees participating in the 401(k) or 457 plan has increased from \$11,000 to \$12,000. Please direct questions regarding deferred compensation plans to the Department of Management and Budget-Office of Retirement Services.

More detailed information regarding the federal income tax, social security tax, and medicare tax is available in Circular E, which can be obtained from the Internal Revenue Service by calling 1-800-829-3676 or visiting their web site at <http://www.irs.ustreas.gov/prod>.

Please direct any questions regarding this memo to the Office of Financial Management, Financial Operations Division, Jeremy Piggott at (517) 335-1612 or Peter Woodford at (517) 373-7581. Thank you.

Attachment

cc: N. Duncan
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Elaine Lewter, ORS - Deferred Compensation

**Pay Codes Changed from using the Federal
Supplemental Flat Rate Method (27%) to use of the
Federal Wage Bracket Tables**

Company	Pay Code	Pay Code Description
900	11OP	OVERPAYMENT ADJUST GROSS WG
900	11RG	RETROACTIVE GENERAL INCREASE
900	11RT	OFM-RETROACTIVE PAY
900	11RA	REALLOCATION-ADJ GROSS WGS
900	11ST	STEP INCREASE-ADJ GROSS WGS
900	11TA	TIME & ATT ADJ-GROSS WGS
900	11UP	UNDERPYMT-ADJ GROSS WGS
900	11WO	WORK OUT CLASS-ADJ GROSS WGS
900	11RS	OFM-RETROACTIVE PAY- ZR131
900	52LG	ANNIVERSARY LONGEVITY PAYMENT
900	32CT	COMP TIME PAYOFF
900	66SV	SEVERANCE PAY
900	72QR	QUALITY RECOGNITION AWARD
900	77GV	GRIEVANCE
900	81PA	PERFORMANCE PAY ADJ
900	81PR	PROJECT PAY
900	82LP	LUMP SUM
900	83LO	LUMP SUM OVERTIME
900	92DH	DEFERRED HOURS PAYOFF-81
900	96SB	SIGNING BONUS
900	97MC	MISSION CRITICAL SKILLS
900	22LG	ANNUAL LONGEVITY PAYMENT
900	32AL	ANNUAL LEAVE PAYOFF
900	46SL	S/L PAYOFF - OTHER
900	53LG	LONGEVITY PYMT - RET
900	82LM	LUMP SUM- IMPACTS REG RATE
900	92DF	DEF HOURS 82+
900	VANL	EARLY OUT 2002-ANL LVE PAYOFF
900	VCMP	EARLY OUT 2002-CMP TME PAYOFF
900	VD81	EARLY OUT 2002-DEF 81 PAYOFF
900	VD82	EARLY OUT 2002-DEF 82 PAYOFF
900	VLNG	EARLY OUT 2002-LNGVTY PAYOFF
900	VSKL	EARLY OUT 2002-SICK LVE PAYOFF